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KENT ECONOMIC
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KEDI ECONOMIC SURVEY

February 1, 1987

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CONTENTS

Page

0.00 Introduction

0.01 Executive Summary 1
0.02 Assumptions 2
0.03 Forecast Highlights 2

1.00 Detailed Forecasts

1.10 Real Growth, Consumer Spending and Retail Sales 4
1.20 Prices and Nominal GNP
1.21 Prices 10
1.22 Nominal GNP 12
1.30 Employment and Labor 14
1.40 Housing and Automobiles
1.41 Housing 16
1.42 Automobiles 18
1.50 Budgets 20
1.60 Income 22
1.70 Money and Credit 24
1.80 Interest Rates, Yields, and Securities Prices 26

2.00 Comparison of Accuracy of Predictions 28

3.00 Historical Data Sources 29

TABLES

0.00 KEDI Forecast Highlights 3
1.11 Selected Indicators of Real Growth 5
1.12 Consumer Spending and Retail Sales 7
1.13 Real GNP 9
1.21 Prices 11
1.22 Nominal GNP 13
1.30 Employment and Labor 15
1.41 Housing 17
1.42 Automobiles 19
1.50 Budgets 21
1.60 Income 23
1.70 Money and Credit 25
1.80 Interest Rates, Yields, and Security Prices 27
3.00 Historical Data Sources 29

SOURCES:

U.S.Department of Commerce first estimates of 1986:4 National Income and Product data, January 20, 1987.

Board of Governors of the Federal Reserve System release of the Index of Industrial Production, January 1987.

The latest available data on prices, employment, industrial and financial developments.

0.00 INTRODUCTION

0.01 EXECUTIVE SUMMARY

HIGHLIGHTS

Real Growth

Look for solid continuous growth. Indicators point to development in the economy for approximately the next six months.

Prices

Inflation will be very low in 1987 while the consumer price index will remain moderate around 2.6% over 1986.

Employment & Labor

With the better than expected start of the economy in January, the employment outlook for 1987 has been increased.

Housing

December 1986 single family housing starts spurted to 1.209 million units from 1.087 million in December.

Automobiles

KEDI expects significant production cuts in car building activity in 1987:2 unless innovative ways of financing are announced.

Budgets

The budget deficit target for fiscal year 1988, starting October 1, 1987, is a realistic $108 billion.

Income

No declines or slowdown in personal income, personal disposable income and their components are forecast for 1987 and 1988.

Money & Credit

Forecast of monetary and credit aggregates for 1987 has been reduced somewhat for mortgages and some long-term credit instruments.

Interest Rates, Yields & Securities Prices

Forecast data for S & P's 500 average has been increased when compared to the January forecast because of the unprecedented bullish market.

O.02 ASSUMPTIONS

		Last Update
1.	In 1987, the weighted price of oil will increase as compared to 1986. It will continue increasing in the 1988-1990 period.	April 1986
2.	A longer-lasting relaxation in monetary and credit policies that started in the second quarter of 1986, will continue inot 1987. Some tightening is not expected earlier than in 1988.	October 1986
3.	In 1987 and 1988 good crops in all main producing countries are anticipated.	September 1986
4.	Foreign trade with China will expand in 1987 and following years.	May 1986
5.	Average rates of growth in 1985-1990 in major industrial countries are anticipated: West Germany 3.4%; Italy 2.4%; Great Britain 2.6%; France 2.8%; Japan 3.3%; Canada 3.0%.	August 1986
6.	No drastic changes in international relationships are anticipated.	Permanent Assumption

O.03 FORECAST HIGHLIGHTS

* Table O.OO on page 3 shows forecast data of selected indicators of the February 1987 KEDI forecast.

* In 1987 moderate growth is expected. It will accelerate in 1988.

* The upward trend will continue throughout 1989-1990.

* Forecast data for 1987-1990 do not point to recession or major downturn.

* In 1987 interest rates will further decline and will remain at low levels throughout the year. Some slight increases are anticipated in 1988.

* Federal budget deficits will keep declining in 1987 and the following fiscal years.

* The 1986 export-import gap will start closing to a more acceptable level.

TABLE 0.00

KEDI FORECAST HIGHLIGHTS

Data for 1986, 1987 and 1988 are on pages indicated below.

Indicator	Unit	1985	1989	1990	1991
Gross national	bil. 82$	3585.2	3992.5	4084.3	4182.3
product, p. 5	% change	2.5	3.1	2.3	2.4
Index of indust.	1977=100	123.8	138.6	142.9	147.8
prod., p. 5	% change	1.1	3.4	3.1	3.4
Capacity	%	80.4	81.0	80.1	79.4
utiliz., p. 5	% change	-1.0	.1	-1.0	-.9
Unemployment	%	7.2	6.5	6.5	6.6
rate, p. 5	% change	-3.1	-1.3	1.0	.8
Private housing	mil.units	1.7	1.9	1.8	1.9
starts, p. 5	% change	4.9	4.4	-2.5	3.3
Car sales,	mil.units	11.0	11.2	11.1	11.6
p. 5	% change	3.2	2.8	-.8	4.0
Implicit GNP	1982=100	111.5	126.7	131.3	136.6
price def.,p.11	% change	2.6	3.4	3.6	4.1
Consumer Price	1967=100	322.2	358.7	371.3	385.0
Index, p. 11	% change	1.9	3.4	3.5	3.7
Prod.Price Index	1967=100	293.7	328.7	343.5	354.8
(fin.goods),p.11	% change	-1.6	4.0	4.5	3.3
Federal Deficit	bil. $	-200.1	-133.1	-106.6	-70.2
p. 21	% change	15.1	-14.5	-19.9	-34.2
Personal Income	bil. $	3314.5	4227.1	4523.0	4853.1
p. 23	% change	5.1	6.9	7.0	7.3
Prime Rate	%	9.4	8.0	8.7	9.5
p. 27	% change	-11.6	6.2	9.0	8.4
Mortgage Rate	%	11.1	9.1	8.8	9.0
p. 27	% change	-11.2	3.4	-2.7	2.0
Currency+demand	bil. $	593.6	858.6	917.8	974.7
deposits , p. 25	% change	13.2	7.2	6.9	6.2
Commercial+ind.	bil. $	493.9	582.5	599.4	612.0
loans, p. 25	% change	5.3	3.1	2.9	2.1
Raw steel	mil.sh.tons	88.1	89.3	90.0	90.2
production	% change	-4.8	.3	.8	.2
Electric power	mil.kw-hr	2576	3210	3328.8	3481.9
production	% change	6.5	3.9	3.7	4.6
Bituminous coal	mil.sh.tons	873	930	973.1	984.0
production	% change	-.1	1.4	1.3	1.5
Crude oil	avg. daily bbl.	3279	2325	2371.5	2421.3
output	% change	.9	1.9	2.0	2.1
Retail sales	bil. $	1377.7	1762.4	1871.7	1991.5
p. 7	% change	6.2	6.1	6.2	6.4

Numbers in "% change" rows show percent changes over the previous year.

1.10 REAL GROWTH

See Table 1.11
Page 5

1987
FORECAST
DATA

Percent Change
from
January 1987
Forecast

+	.12%	Index Indus. Prod.
+	.06%	Capacity Util.
+	.01%	GNP
-	.22%	Private Housing Starts
-	.94%	Autos
-	1.64%	Unemp-ploy-ment

LOOK FOR SOLID CONTINUOUS GROWTH

* Regular Survey of the National Association of Purchasing Managers, an important barometer of the economy. Their index advanced to 55.8% for January '87 compared to 50.4% in December '86--highest since July '84. Percent of respondents reporting:

	Jan 1987	Dec 1986
New orders up	40%	22%
Production up	37%	19%
Employment up	13%	9%

* Leading indicators jumped 2.1% in December, the biggest gain in nearly 4 years.

* Factory orders rose a brisk 1.2%.

* Conference Board's monthly Index of Consumer Confidence advanced to 94.0 in December, almost 4 points up from the November level.

* Index of Industrial Production in December gained .5%--encouraging in that manufacturing advanced by .6%, mostly in export sensitive segments.

* Unemployment rate was 6.7% in December with indications that January '87 will again be around 6.7%.

THESE INDICATORS POINT TO DEVELOPMENT IN THE ECONOMY FOR APPROXIMATELY THE NEXT SIX MONTHS.

TABLE 1.11
SELECTED INDICATORS I.
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	GNP	Index of ind. prod**	Unem-ploy ment	Capacity util'n rate**	Private housing starts	Auto sales
Unit	$82 bil.	1977=100	%	%	mil.	mil.
Year & Qtr.						
1985*	3585.2	123.8	7.21	80.4	1.742	11.0
1986:1*	3655.9	125.0	7.06	80.0	1.990	10.7
2*	3661.4	124.4	7.16	79.6	1.905	10.7
3*	3686.4	125.1	6.90	79.7	1.744	13.2
4	3702.4	125.9	6.83	79.4	1.672	10.8
YEAR	3676.5	125.1	6.99	79.6	1.828	11.3
% change from '85	2.5	1.1	-3.1	-1.0	4.9	3.2
1987:1	3724.3	126.5	6.78	79.8	1.556	10.1
2	3756.2	127.6	6.84	79.8	1.706	10.4
3	3788.5	128.9	6.75	79.7	1.808	11.0
4	3826.8	131.6	6.70	80.1	1.715	10.5
YEAR	3773.9	128.7	6.77	79.8	1.696	10.5
% change from '86	2.6	2.8	-3.1	.3	-7.2	-7.5
1988:1	3733.4	132.2	6.73	80.2	1.659	10.3
2	3857.7	133.4	6.67	80.4	1.800	10.8
3	3886.2	134.3	6.63	81.2	1.902	11.4
4	4012.5	136.4	6.51	81.7	1.810	11.2
YEAR	3872.4	134.1	6.63	80.9	1.793	10.9
% change from '87	2.6	4.2	-2.0	1.3	5.7	4.0

*Historical data.
**New, revised series

1.12 CONSUMER SPENDING AND RETAIL SALES

See Table 1.12 - page 7

1987 FORECAST DATA

Percent Change from January 1987 Forecast

+19.01%	Pers. Con. Exp. Durable
+ 3.03%	Retail Sales Durable
- .09%	Pers. Con. Exp. Nondurable
- 1.49%	Retail Sales Total
- 4.18%	Retail Sales Nondurable
- 5.09%	Pers. Con. Exp. Services

FORECAST DATA POINT TO SIGNIFICANT GAIN IN CONSUMER SPENDING ON SERVICES.

% Change in constant 1982$ over 1986:

Volume of:

health & medical services	+7
hotels, motels, and restaurants	+6-7
maintenance and repairs of consumer durables	+6
transportation and entertainment	+6

Strong increases are predicted for educational, legal, advertisement and management consulting services.

In the nondurables segment, main gains are expected in food and beverages, and chemicals service the consumer sector: cleaning, cosmetics, drugs and toilet preparations, consumer plastics, adhesives, and biotechnology products.

Prediction for other nondurables is mixed:

* Weak in textile, apparel, shoes and other leather products.
* Moderate in paper and paper products, and a bit of growth in rubber non-tire products.

Consumer demand for durables will remain strong in appliances and fixtures, home building materials, lumber and wood products, motor vehicles parts and recreational vehicles. Expect a decline in car sales, mainly domestically produced. This year will be a flat market for light-duty trucks and vans.

TABLE 1.12

CONSUMER SPENDING AND RETAIL SALES

Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*--Personal Cons. Expend.- Durables	Nondur-ables	Services	**------Retail Sales------* Total	Durables	Nondur-ables
Unit	bil.$	bil.$	bil.$	bil.$	bil.$	bil.$
Year & Qtr.						
1985*	359.3	905.1	1336.1	1377.7	511.6	866.2
1986:1*	360.8	929.7	1415.5	1410.8	526.4	884.4
2*	373.9	928.4	1428.1	1445.6	532.1	913.5
3*	414.5	932.8	1452.4	1470.2	559.4	910.8
4	404.2	840.0	1575.7	1491.3	555.1	936.2
YEAR	388.4	907.7	1467.9	1454.5	543.2	911.2
% change from '85	8.1	.3	9.9	5.6	6.2	5.2
1987:1	492.4	958.0	1522.3	1502.4	560.1	942.3
2	404.5	966.7	1532.6	1450.8	557.3	893.5
3	411.7	980.2	1553.9	1577.3	581.7	995.6
4	414.2	993.1	1585.8	1604.5	591.6	1012.9
YEAR	430.7	974.5	1548.7	1533.8	572.7	961.1
% change from '86	10.9	7.4	5.5	5.5	5.4	5.5
1988:1	416.5	1011.2	1484.2	1649.5	611.2	1038.3
2	421.0	1020.3	1630.8	1632.2	617.4	1014.8
3	444.2	1037.4	1631.9	1665.3	626.5	1038.8
4	460.5	1051.5	1774.0	1697.4	633.7	1063.7
YEAR	435.6	1030.1	1630.3	1661.1	622.2	1038.9
% change from '87	1.1	5.7	5.3	8.3	8.6	8.1

1.13 REAL GNP

See Table 1.13
Page 9

1987
FORECAST
DATA

Percent Change
from
January 1987
Forecast

+ 1.77%	Fed. Govt. Purch.
+ .38%	Pers. Cons. Expend.
+ .01%	GNP
+ .01%	State Local Purch.
- 1.60%	Net Exports
- 2.60%	Gross Private Dom. Inv.

GNP FOR 1987 IN CONSTANT 1982$ SHOWS BETTER BALANCE COMPARED TO THE 1986 GNP.

The main improvement is in the foreign sector. Look for a decline in the trade gap:

Export-Import Gap
(in bil. 1982$)

1986	-149.7
1987	-144.6

An imbalance in business capital outlays will persist. Expenditures on new factory plants and other commercial buildings will be flat and increments in new machinery and equipment will be less than moderate. More normal rates of growth of business capital outlays are expected no earlier than in 1988.

Housing will be weaker in 1987 compared to 1986. Expect declines in spending on new private housing.

Continuous growth in personal consumption, regular increments in government spending, improved foreign trade segment, and weakness in personal and business capital formation.

Look for a better balanced GNP in 1988.

TABLE 1.13
REAL GNP
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*----------Gross National Product----------					*
	Total	Pers. cons. expend.	Gross pvt.dom. investm.	Net exports	Fed. govt. purch.	State local purch.
Unit	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.	$82 bil.
Year & Qtr.						
1985*	3585.2	2324.5	647.7	-108.2	323.6	397.6
1986:1*	3655.9	2372.6	684.0	-125.9	320.4	404.8
2*	3661.4	2408.4	664.7	-153.9	328.9	413.3
3*	3686.4	2448.0	651.3	-163.3	330.9	419.5
4	3702.4	2445.1	638.8	-155.6	353.5	420.6
YEAR	3676.5	2418.5	659.7	-149.7	333.4	414.6
% change from '85	2.5	4.0	1.9	38.3	3.0	4.3
1987:1	3742.3	2492.6	640.1	-151.4	339.2	421.8
2	3756.2	2486.3	646.0	-148.1	343.6	428.4
3	3788.5	2493.1	657.1	-140.5	345.3	433.5
4	3826.8	2509.6	667.2	-138.2	349.4	438.8
YEAR	3773.9	2490.9	652.6	-144.6	344.4	430.6
% change from '86	2.6	3.0	-1.1	-3.4	3.3	3.9
1988:1	3833.4	2430.0	671.4	-135.4	351.2	442.1
2	3857.7	2516.1	673.9	-131.3	353.4	445.6
3	3886.2	2538.4	675.6	-129.9	354.2	447.9
4	4012.5	2651.4	678.4	-127.4	357.4	452.7
YEAR	3872.4	2531.4	674.8	-131.0	350.1	447.1
% change from '87	2.6	1.6	3.4	-9.4	1.7	3.8

*Historical data.

1.20 PRICES AND NOMINAL GNP

1.21 PRICES

See Tables 1.21 - page 11

1987 FORECAST DATA

Percent Change from January 1987 Forecast

+	.12%	State Local Purch.
+	.01%	Consumer Price Index
-	.25%	GNP
-	.26%	Federal Govt. Purch.
-	.52%	Producer Price Index
-	.62%	Pers. Cons. Expend.

INFLATION WILL BE VERY LOW IN 1987 WHILE THE CONSUMER PRICE INDEX WILL REMAIN MODERATE AROUND 2.6% OVER 1986.

Some forecasters are less optimistic:

Blue Chip Indicators +4.0%

Beryl Sprinkle (Chairman of the Board of Economic Advisors to the President) +3.8%

There will be nothing strong enough to push prices up significantly because:

* Wage and salary increments of new contracts this year are expected to be 1-2 percent only.
* Unemployment rate will still remain relatively high at 6.7-6.8% through the most of the year.
* Capacity utilization will remain at low levels, around 80% for mines, manufacturing and utilities.
* Good harvest for this year, about the same as 1986.
* Large supplies of raw materials, semifinished, and finished products are expected to prevail.
* Increases in prices of energy will be moderate.

TABLE 1.21
PRICES
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	*---Indexes--* Cons. price index n.s.a.**	Prod. price index n.s.a.**	*-------Price deflators--------* Gross Nat'l Prod.	Pers. cons. expend.	Fed. govt. purch.	State local purch.
Unit	1967= 100	1967= 100	1982= 100	1982= 100	1982= 100	1982= 100
Year & Qtr.						
1985*	322.2	293.7	111.5	111.5	109.4	116.0
1986:1*	327.3	290.8	113.5	113.5	111.0	118.8
2*	326.5	288.5	114.0	114.1	111.8	119.4
3*	328.9	287.9	115.0	115.1	111.6	120.3
4	330.9	288.4	115.3	115.3	106.5	122.0
YEAR	328.4	288.9	114.5	114.2	110.2	120.1
% change from '85	1.9	-1.6	2.6	2.4	.8	3.6
1987:1	333.0	292.9	116.5	115.2	112.9	122.3
2	335.6	297.5	117.4	116.8	114.1	124.4
3	337.7	302.3	118.3	118.2	115.2	125.6
4	340.2	306.2	119.4	119.3	117.0	127.5
YEAR	336.6	299.7	117.9	117.4	114.8	125.0
% change from '86	2.5	3.7	3.0	2.8	4.2	4.0
1988:1	343.4	317.9	120.9	119.8	118.2	128.6
2	347.2	311.8	122.0	122.1	119.5	129.9
3	347.3	316.0	122.9	122.7	120.6	132.0
4	349.8	318.4	124.3	123.9	122.4	133.7
YEAR	346.9	316.0	122.5	122.1	120.2	131.1
% change from '87	3.1	5.4	3.9	4.1	4.7	4.9

*Historical data.
**CPI: All Urban Consumers; PPI: Finished Goods.

1.22 NOMINAL GNP

See Table 1.22 - page 13

1987 FORECAST DATA

Percent Change from January 1987 Forecast

+ 1.49%	Fed Govt. Purch.
+ 1.47%	Net Exports
+ .13%	State Local Purch.
- .11%	Pers. Cons. Expend.
- .24%	GNP
- 1.18%	Gross Private Dom. Inv.

THE 1987 NOMINAL GNP MIRRORS 1986 WITH INHERITED IMBALANCES THAT WILL PERSIST:

* Negative trade gap, though smaller
* Low level of business capital formation, in both areas: flat in new plants, and very modest increases in new machinery and equipment.
* Some declines in spending on residential construction.

The outlook for 1988 calls for a more balanced growth with further declines in the negative trade balance, and resumption of growth in the business and consumer fixed capital formation.

KEDI assumes that the decline of the international value of the dollar against major currencies will bottom out at the present level--specifically the Japanese Yen and German Mark. Calculations reveal that further declines will necessarily affect domestic price levels, rekindle inflation, and not be effective in speeding up the closing of the trade gap.

TABLE 1.22
NOMINAL GNP
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*----------Gross National Product----------					*
	Total	Pers. cons. expend.	Gross pvt. dom invest.	Net exports	Fed. govt. purch.	State local purch.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1985*	3998.1	2619.1	661.1	-78.9	354.1	461.3
1986:1*	4156.8	2706.0	708.3	-93.7	355.6	480.5
2*	4174.0	2730.3	687.3	-104.5	367.7	493.1
3*	4240.7	2799.8	675.8	-108.9	369.3	504.7
4	4268.4	2819.9	674.5	-115.6	376.3	513.3
YEAR	4207.8	2761.5	686.5	-105.7	367.2	497.9
% change from '85	5.2	5.4	3.8	33.9	3.7	7.9
1987:1	4338.8	2872.6	678.1	-110.7	383.0	515.9
2	4409.8	2903.8	687.3	-106.3	392.0	532.9
3	4481.8	2945.8	695.8	-102.1	397.8	544.5
4	4569.2	2993.1	703.1	-95.3	408.8	559.5
YEAR	4449.9	2928.8	691.1	-103.6	395.4	538.2
% change from '86	5.8	6.1	.7	-2.0	7.7	8.1
1988:1	4513.7	2911.9	708.2	-90.1	415.1	568.5
2	4706.4	3072.1	712.6	-79.5	422.3	578.8
3	4776.1	3113.5	720.2	-76.0	427.2	591.2
4	4987.5	3286.0	726.0	-67.2	437.5	605.3
YEAR	4744.7	3091.7	716.8	-78.2	425.5	586.0
% change from '87	6.6	5.6	3.7	-24.5	7.6	8.9

*Historical data.

1.30 EMPLOYMENT AND LABOR

See Table 1.30 - page 15

1987 FORECAST DATA

Percent Change from January 1987 Forecast	
+ .14%	Total Employed
+ .14%	Non-Agri.
0.00%	Agri-culture
- .01%	Popula-tion
- .06%	Civilian Labor Force
- 2.77%	Unemploy-ment rate

WITH THE BETTER THAN EXPECTED START OF THE ECONOMY IN JANUARY, THE EMPLOYMENT OUTLOOK FOR 1987 HAS BEEN INCREASED.

* Preliminary data for January point to the 6.7% unemployment rate--the same as December 1986. KEDI and most other forecasters expected a January rate of 6.9-7.0%. However, preliminary January data indicate increases in employment in many segments of manufacturing, especially the export-sensitive industries. KEDI has revised upward the prediction of new jobs in manufacturing from 50,000 to 90,000 new jobs this year.

* New jobs in the service sector has been revised upwards with more new openings forecast for health, medical, transportation, and entertainment segments.

Though the new forecast calls for a better employment situation in general, it does not mean that it will improve in all segments of the economy. Forecast data still show declines in employment, mainly in primary metals, metallic ore mining, commercial, manufacturing, and office buildings and apartments.

TABLE 1.30
EMPLOYMENT & LABOR
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Population	Civil. labor force	*-------Employment-------* Total	Agri-cult.	Non-agric.	Unem-ployment rate
Unit	mil.	mil.	mil.	mil.	mil.	%
Year & Qtr.						
1985*	241.7	115.4	107.2	3.2	103.9	7.21
1986:1*	244.5	117.0	108.7	3.2	105.5	7.06
2*	245.9	117.7	109.3	3.2	106.1	7.16
3*	247.3	118.2	110.2	3.2	104.1	6.90
4	249.8	118.7	110.6	3.1	107.5	6.83
YEAR	246.9	117.9	109.8	3.2	106.7	6.99
% change from '85	2.1	2.2	2.0	-.8	2.7	-3.09
1987:1	250.7	119.1	111.0	3.1	107.9	6.78
2	252.3	120.2	112.0	3.1	108.9	6.84
3	254.0	121.6	113.4	3.1	110.3	6.75
4	256.1	122.0	113.8	3.1	110.7	6.70
YEAR	253.3	120.7	112.6	3.1	109.5	6.77
% change from '86	2.6	2.4	2.5	-2.4	2.6	-3.15
1988:1	257.5	122.7	114.4	3.1	111.3	6.73
2	259.6	123.8	115.5	3.0	112.5	6.67
3	261.4	125.0	116.7	3.0	113.7	6.63
4	263.5	126.4	118.2	3.0	115.2	6.51
YEAR	260.5	124.5	116.2	3.1	113.1	6.63
% change from '87	2.9	3.1	3.2	0.0	3.3	-1.96

*Historical data.

1.41 HOUSING

See Table 1.41 - Page 17

1987
FORECAST
DATA

Percent Change
from
January 1987
Forecast

+	2.00%	Mobile Home Shipments
+	.73%	Single Family Starts
+	.42%	Permits Issued
+	.38%	1-Family unit price New
-	.32%	1-Family unit price Existing
-	.97%	Multiple Family Housing Starts

DECEMBER 1986 SINGLE FAMILY HOUSING STARTS SPURTED TO 1.209 MILLION UNITS FROM NOVEMBER'S 1.087 MILLION UNITS WHILE MULTI-FAMILY STARTS GAINED SIGNIFICANTLY.

KEDI looks at this as a temporary deviation rather than an indication of strong performance for 1987, and maintains the forecast of a weaker housing market this year when compared to 1986, especially in the apartment segment. Present vacancy rate of apartments is the highest since 1982. It is generally understood that apartments are overbuilt. Add to that the negative impact of new tax legislation which MUST result in declining activity for apartment construction.

Forecast of more significant gains in private housing starts, both single-family and apartments in 1988 over 1987 is maintained here.

TABLE 1.41
HOUSING
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	Single family housing starts	Multi-family housing starts	Mobile home shipments	Permits authorized	1-Fam. unit price new**	1-Fam. unit price exist**
Unit	mil.	mil.	mil.	mil.	tho. $	tho. $
Year & Qtr.						
1985*	1.072	.669	.283	1.735	101.0	90.3
1986:1*	1.257	.733	.274	1.839	103.4	91.8
2*	1.242	.663	.280	1.805	104.7	94.7
3*	1.142	.602	.278	1.678	106.2	96.7
4	1.131	.541	.269	1.589	110.2	97.8
YEAR	1.193	.635	.275	1.728	106.1	95.2
% change from '85	11.3	-5.1	-2.7	-.4	5.1	5.5
1987:1	1.039	.517	.253	1.523	110.6	99.3
2	1.116	.590	.284	1.672	111.8	100.1
3	1.174	.634	.273	1.714	112.5	100.2
4	1.099	.616	.259	1.731	114.4	103.1
YEAR	1.107	.589	.267	1.660	112.3	100.7
% change from '86	-7.2	-7.2	-2.9	-3.9	5.8	5.7
1988:1	1.03?	.627	.261	1.628	115.3	105.3
2	1.120	.680	.275	1.738	117.9	106.7
3	1.241	.661	.298	1.851	119.9	107.9
4	1.168	.642	.294	1.826	122.4	109.2
YEAR	1.140	.653	.282	1.761	118.9	107.3
% change from '87	3.0	10.7	5.5	6.1	5.8	6.6

*Historical data.
**Average. Not seasonally adjusted.

1.42 AUTOMOBILES

See Table 1.42 - page 19

1987 FORECAST DATA

Percent Change from January 1987 Forecast

+ 1.61%	Imported Car Sales
+ .74%	Total Light Truck Sales
0.00%	Shipments
0.00%	Dealer Inventory
- .94%	Total Car Sales
- 2.00%	Domestic Car Sales

KEDI EXPECTS SIGNIFICANT PRODUCTION CUTS IN CAR BUILDING ACTIVITY IN 1987:2 UNLESS INNOVATIVE WAYS OF FINANCING ARE ANNOUNCED.

Passenger car sales dropped in mid-January by 36.9% compared to mid-January 1986. KEDI shares the opinion that this reflects the payback for the December 1986 incentives.

Ambitious plans remain for 1987:1 for many car builders as they plan to produce at about the same level as 1986:1--2.1 million cars.

PRODUCTION OF CARS IN 1987:1
(in thousand units)

	1987:1 (Planned)	1986:1 (Actual)	Percent Change
GM	1100	1200	- 8.8
Ford	543	447	+22.0
Chrysler	306	373	-18.0
Honda	88	45	+93.0
AMC	11	13	-16.0
VW	27	22	+24.0
Toyota	9	0	0
Nissan	38	22	+75.0

TABLE 1.42
AUTOMOBILES
Quarterly data are seasonally adjusted at annual rates, unless otherwise stated.

INDICATOR	Total car sales	Car sales dom.	Car sales imp.	Dealer car inventory n.s.a. **	Factory car shipments	Total light truck sales
Unit	mil.	mil.	mil.	mil.	mil.	mil.
Year & Qtr.						
1985*	11.0	8.2	2.8	1.3	8.4	3.7
1986:1*	10.7	7.9	2.8	1.9	7.7	3.4
2*	10.7	7.7	3.0	1.8	8.3	3.5
3*	13.2	9.7	3.5	1.3	11.0	3.6
4	10.8	7.1	3.0	1.4	8.9	3.3
YEAR	11.3	8.1	3.1	1.4	9.0	3.5
% change from '85	3.2	-1.2	9.8	7.7	6.8	-6.8
1987:1	10.1	7.2	2.9	1.7	7.5	3.3
2	10.4	7.3	3.1	1.8	7.4	3.5
3	11.0	7.7	3.3	1.7	7.8	3.5
4	10.5	7.2	3.3	1.8	7.7	3.4
YEAR	10.5	7.3	3.1	1.8	7.6	3.4
% change from '86	-7.5	-9.9	2.4	28.6	-15.3	-.7
1988:1	10.3	7.0	3.3	1.9	7.6	3.3
2	10.8	7.7	3.1	1.8	7.9	3.5
3	11.4	8.0	3.4	1.7	8.1	3.7
4	11.2	7.9	3.3	1.7	8.0	3.8
YEAR	10.9	7.7	3.3	1.7	7.9	3.6
% change from '87	4.0	.1	4.0	-5.6	3.9	4.4

*Historical data.
**End of period data.

1.50 BUDGETS

See Table 1.50 - page 21

1987 FORECAST DATA

Percent Change from January 1987 Forecast

+ .21%	State Income Tax
+ .18%	State Surplus/ Deficit
- .24%	Federal Surplus/ Deficit
- .25%	Corp. Profit Tax Accrued
- .53%	Federal Income Tax
- 1.71%	State Local Corp. Tax Accrued

THE BUDGET DEFICIT TARGET FOR FISCAL YEAR 1988, STARTING OCTOBER 1, 1987, IS A REALISTIC $108 BILLION.

The assumption that targets of the Gramm-Rudman Deficit Reduction Act will be met in fiscal year 1988 and following years is maintained here.

Fiscal year 1986 ended on October 31, 1986 with the federal deficit at $202.7 bil.

The current fiscal year 1987, ending October 31, 1987 is expected to produce a deficit of $173.2 bil.

The Congressional Budget Office, traditionally wrong in it's forecasts, predicts the 1988 fiscal year to end with a budget deficit in the range of $135-145 bil. KEDI believes this is too pessimistic.

The plan for a balanced federal budget in FY 1991 stimulates considerations:

Surpluses of state and local budgets are growing constantly, and will continue to grow. In 1991, a conservative prediction calls for approximately $85 bil. surplus. If, at that time, the federal budget is balanced, the government sector, as a whole, will show a significant surplus of about $90 bil. The public sphere will absorb more funds than it releases which could result in negative effects on employment, production and overall growth of the economy.

TABLE 1.50
FEDERAL, STATE AND LOCAL BUDGETS
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	*-----FEDERAL----------* Income taxes	Corp. profits tax accru.	Surplus /deficit	*---STATE AND LOCAL----* Income taxes	Corp. profits tax accru.	Surplus /deficit
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1985*	350.8	67.7	-200.1	142.0	18.1	59.2
1986:1*	350.3	71.2	-201.6	147.2	17.5	70.0
2*	353.1	75.2	-238.1	151.7	18.1	59.0
3*	365.8	84.3	-197.4	153.1	20.1	64.0
4	377.4	86.2	-190.1	155.0	21.6	65.9
YEAR	361.6	79.2	-206.8	151.8	19.3	64.7
% change from '85	3.1	17.0	3.3	6.9	6.8	9.3
1987:1	389.1	87.1	-180.4	158.1	22.0	67.9
2	396.5	91.0	-177.1	162.2	22.8	69.3
3	400.3	93.1	-173.2	166.1	23.2	70.4
4	402.4	95.1	-170.0	167.8	24.0	73.7
YEAR	397.1	91.6	-175.2	163.6	23.0	70.3
% change from '86	9.8	15.6	-15.3	7.8	19.0	8.7
1988:1	409.1	97.4	-165.9	169.2	24.6	75.2
2	415.8	99.5	-161.0	171.4	25.5	77.4
3	420.2	103.0	-152.8	173.5	26.0	78.5
4	425.6	106.0	-143.1	176.2	26.1	79.6
YEAR	417.7	101.5	-155.7	172.6	25.6	77.7
% change from '87	5.2	10.8	-11.1	5.5	11.1	10.5

*Historical data.

1.60 INCOME

See Table 1.60 - page 23

1987
FORECAST
DATA

Percent Change
from
January 1987
Forecast

+	.35%	Comp. of Employees
+	.16%	Corp. After Tax Profit
+	.12%	Personal Disp. Income
+	.05%	Personal Income
+	.01%	Average Weekly Earnings
-	6.85%	Personal Savings

NO DECLINES OR SLOWDOWN IN PERSONAL INCOME, PERSONAL DISPOSABLE INCOME AND THEIR COMPONENTS ARE FORECAST FOR 1987 AND 1988.

Forecast of corporate profits in 1987 is optimistic despite the impact of the new tax law. Majority of industries will end this year with gains or smaller losses than in 1986.

CORPORATE PROFITS WITH INVENTORY VALUATION ADJUSTMENTS (in bil.$)

	1985	1986	1987
Manufacturing			
Durables			
Prim. metals	-2.6	-2.1	-1.8
Fab. metal prod.	4.1	5.0	5.2
Nonelect. mach.	3.6	3.3	3.4
Elect/electronic machinery	4.9	5.1	5.2
Motor vehicles and equipment	6.8	15.2	15.7
Other	12.1	15.2	15.7
Nondurables			
Food/kindred prod.	7.8	10.3	12.1
Chem/allied prod.	4.7	6.9	7.3
Petro/coal prod.	13.4	7.5	7.9
Other	19.1	17.1	17.3
Trans/Public Util.	33.0	38.7	41.2
Wholesale/retail	49.7	51.0	52.9
Other nonfinancial	14.9	14.8	15.0
Fed Reserve Banks	16.8	15.6	16.4
Rest of the world	31.8	34.3	35.7

TABLE 1.60
INCOME
Quarterly data are seasonally adjusted at annual rates.

INDICATOR	Pers. income	Pers. disp. income	Comp. of empl.	Corp. after tax profits	Pers. saving	Avg. week earn.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	$
Year & Qtr.						
1985*	3314.5	2828.0	2368.2	131.4	143.3	382.0
1986:1*	3444.3	2946.8	2461.5	135.2	145.6	391.2
2*	3489.3	2984.5	2486.9	138.0	153.1	393.9
3*	3498.8	2979.9	2507.4	135.9	84.1	393.7
4	3533.4	3001.0	2544.2	138.2	182.3	397.8
YEAR	3491.5	2978.1	2500.0	136.8	141.3	394.1
% change from '85	5.3	5.3	5.6	4.1	-1.4	3.2
1987:1	3646.2	3099.0	2570.4	142.6	126.2	400.2
2	3701.4	3142.7	2614.9	148.9	137.5	406.3
3	3760.4	3194.0	2669.7	156.3	145.6	410.5
4	3815.7	3245.5	2727.5	161.6	148.1	415.9
YEAR	3730.9	3170.3	2645.6	152.3	139.3	408.2
% change from '86	6.9	6.5	5.8	11.3	-1.4	3.6
1988:1	3747.3	3169.0	2770.2	163.8	152.0	417.4
2	3927.2	3340.0	2805.6	167.2	161.2	420.5
3	3977.4	3383.7	2876.8	172.4	163.0	425.8
4	4164.9	3563.1	2914.3	175.9	168.7	428.4
YEAR	3954.2	3364.0	2841.7	169.8	161.2	423.0
% change from '87	6.0	6.1	7.4	11.5	15.7	3.6

*Historical data.

1.70 MONEY AND CREDIT

See Table 17.0 - page 25

1987
FORECAST
DATA

Percent Change
from
January 1987
Forecast

+	.32%	Currency & Demand Deposits
+	.31%	Time Deposits
-	.04%	Comm. & Indust. Loans at Banks
-	.22%	Consumer Install. Credit
-	2.90%	Large Denom. Time Deposits
-	5.26%	Mortg. at S & L Assns.

THE FORECAST OF MONETARY AND CREDIT AGGREGATES FOR 1987 HAS BEEN REDUCED SOMEWHAT FOR MORTGAGES AND SOME LONG-TERM CREDIT INSTRUMENTS WHEN COMPARED TO LAST MONTH'S ISSUE.

There are no signs that the Federal Reserve will take restrictive measures to curb the money growth. So far the torrid growth of money supply has not produced any inflationary pressures. All indications are that it will not in the current phase of the cycle. As a matter of fact, in the last two years the increased money supply contributed to pushing prices upward at stock and bond markets and to handle the deficit in foreign trade. The impact of increased money supply on domestic price levels has been minimal and there are virtually no reasons to believe that it will change in the foreseeable future. Money is not related with price levels in the way that a rise in money supply necessitates price increases in the current phase of the cycle.

TABLE 1.70
MONEY & CREDIT

Data for "Currency and demand deposits, M1", and "Time deposits, adjusted, M2" are averages of daily figures; other data are end of period figures.

INDICATOR	Currency and demand deposits M1, s.a.	Time deposit adjust. M2,s.a.	Cons. instal. credit n.s.a.	Comm.& indus. loans at banks s.a.	Large denom. time dep. s.a.	Mortg. at S & L Assns. n.s.a.
Unit	bil. $	bil. $	bil. $	bil. $	bil. $	bil. $
Year & Qtr.						
1985*	593.6	2484.0	535.1	493.9	436.5	583.2
1986:1*	629.8	2581.3	550.9	502.1	450.4	574.7
2*	657.8	2645.7	567.7	508.0	448.5	565.2
3*	685.0	2719.6	584.3	511.4	443.4	558.4
4	715.2	2771.9	597.5	517.2	440.2	569.5
YEAR	672.0	2679.6	597.5	517.2	440.2	569.5
% change from '85	13.2	7.9	11.7	5.3	.8	-2.3
1987:1	724.6	2854.5	602.1	526.9	440.4	568.2
2	738.2	2910.3	609.5	534.2	438.3	573.1
3	746.8	2979.4	620.7	537.1	437.1	577.2
4	751.9	3036.2	633.4	547.0	435.2	581.4
YEAR	740.4	2945.1	633.4	547.0	435.2	581.4
% change from '86	10.2	9.9	6.0	5.8	-1.1	2.1
1988:1	777.3	3108.9	646.5	549.7	448.3	596.6
2	794.4	3163.5	653.8	553.9	450.6	605.8
3	807.5	3243.2	664.5	557.8	453.8	619.4
4	824.5	3319.6	680.4	565.0	457.2	630.5
YEAR	800.9	3208.8	680.4	565.0	457.2	630.5
% change from '87	8.2	9.0	7.4	3.3	5.1	8.4

*Historical data. n.s.a: not seasonally adjusted.
s.a.: seasonally adjusted at annual rates.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

See Table 1.80 - page 27

1987 FORECAST DATA

Percent Change from January 1987 Forecast

+12.73%	S & P's 500 Avg.
+ 2.52%	20 yr. Govt. Bonds. Yield
+ .98%	Aaa Corp. Bond Rate
+ .03%	Prime Rate
0.00%	Conv. Mortg. Rate
- .19%	Treas Bills 3 mo. Yield

FORECAST DATA FOR STANDARD AND POOR'S 500 AVERAGE HAS BEEN INCREASED WHEN COMPARED TO THE JANUARY FORECAST BECAUSE OF THE UNPRECEDENTED BULLISH MARKET

Forecast data for interest rates and yields show further declines in the first half of this year and leveling off in the second half. No increases are predicted for this year.

Forecasts of 35 economists polled by the Wall Street Journal and published on January 5, 1987 come close to KEDI. The polled forecasters predict the 3 month Treasury bill rate to fall to less than 5% by mid year and to rebound slightly; Federal Reserve discount rate to drop to 4.5%, and 30 year government bonds to go down from the present 7 and 3/8% to 7% in the middle of the year and bounce back to 7.4% at year's end. That's coming close to what KEDI has predicted since last year.

KEDI has predicted good stock and bond markets, but not as good as it is right now.

TABLE 1.80
INTEREST RATES, YIELDS & SECURITIES PRICES
Quarterly averages of monthly figures.

INDICATOR	Treas. bills 3 mo. yield	Prime rate	Conv. mortg rate	Aaa corp. bond rate	20 yr. Govt. bonds yield	S & P's 1941-43 500 Avg
Unit	%	%	%	%	%	%
Year & Qtr.						
1985	7.48	9.43	11.12	11.32	10.88	186.84
1986:1*	7.01	9.37	10.22	9.74	9.01	221.72
2*	6.14	8.61	9.82	9.00	7.67	242.16
3*	5.52	7.85	9.84	8.81	7.38	241.15
4	5.30	7.50	9.62	8.63	7.18	262.27
YEAR	5.99	8.33	9.88	9.04	7.81	241.82
% change from '85	-19.9	-11.6	-11.2	-20.1	-28.2	29.4
1987:1	5.25	7.40	9.53	8.46	6.87	271.47
2	5.18	7.26	9.01	8.29	6.65	282.09
3	5.08	7.20	8.76	8.11	6.34	294.37
4	5.21	7.35	8.58	8.02	6.18	296.78
YEAR	5.18	7.30	8.97	8.22	6.51	286.18
% change from '86	-13.6	-12.4	-9.2	-9.1	-16.6	18.3
1988:1	5.28	7.46	8.60	7.91	6.24	298.56
2	5.39	7.51	8.72	7.96	6.27	302.41
3	5.44	7.58	8.83	8.12	6.48	600.08
4	5.52	7.60	8.87	8.28	6.64	296.51
YEAR	5.41	7.54	8.75	8.07	6.41	374.39
% change from '87	4.4	3.2	-2.4	-1.9	-1.6	30.8

*Historical data.

2.00 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, Consumer Price Index has been selected for comparison. The actual figure has been released by the U. S. Department of Labor, Washington, D. C. Forecast data are in Business Forecasts 1986 (Federal Reserve Bank of Richmond, Virginia, February 1986). The following table shows the predictions of forecasters and deviations of forecast data.

TABLE 2.00

COMPARISONS OF ACCURACY OF PREDICTIONS
Consumer Price Index (1967=100)
Actual figure: 328.4

Forecaster (and page in source)	Date of Forecast	Forecast	Accuracy %
First Interstate Economics, p. 42*	11/18/85	335.9	2.3
Ashland Ohio, p. 44*	12/85	334.9	2.0
Manufacturers Hanover Trust Co., p. 45	12/85	334.2	1.8
Research Seminar in Quantitative Economics, Univ. of Michigan, p. 49	12/12/85	334.9	2.0
The Journal of Business Forecasting, p.51	1/86	335.0	2.0
L. D. Reece, Cities Service Oil and Gas Corporation, p. 53	1/86	334.1	1.7
Metropolitan Life Insurance Co., p. 55	1/1/86	335.5	2.2
Armco, Inc., p. 59	1/22/86	333.6	1.6
J. J. McAuley, Fordham Univ., p. 62	1/24/86	333.8	1.6
Chase Econometrics, p. 65	1/29/86	333.3	1.5
K.E.D.I., Inc	1/2/86	331.6	1.0

* Calculated as average of four quarterly data.

3.00 HISTORICAL DATA SOURCES

For reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the source of historical data. The sources are: **Survey of Current Business** referred to as SCB (monthly, U. S. Department of Commerce, Washington, D.C.), **Federal Reserve Bulletin,** FRB, (Board of Governors of the Federal Reserve System, Washington, D.C. monthly), **Index of Industrial Production,** G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly.)

TABLE 3.00

HISTORICAL DATA SOURCES

Table Number	Data Series	Source
1.11 Selected Indicators of Real Growth I.	Gross national product, 1982 $	SCB, Table 1.2
	Index of industrial production	IIP, p. 2.
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.12 Selected Indicators of Real Growth II.	Personal Cons. expend: Durables,	SCB, Table 1.1
	Nondurables	SCB, Table 1.1
	Services	SCB, Table 1.1
	Retail sales: Total	SCB, Blue pages
	Durables	SCB, Blue pages
	Nondurables	SCB, Blue pages
1.12 Real GNP	Gross national product, 1982 $	SCB, Table 1.2
	Personal consumpt. expenditures	SCB, Table 1.2
	Gross private dom. investment	SCB, Table 1.2
	Net exports	SCB, Table 1.2
	Federal purchases	SCB, Table 1.2
	State and local purchases	SCB, Table 1.2
1.21 Prices	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit price deflators: GNP	SCB, Table 7.1
	Personal consumpt. expenditures	SCB, Table 7.1
	Federal purchases	SCB, Table 7.1
	State and local purchases	SCB, Table 7.1
1.22 Nominal GNP	Gross national product	SCB, Table 1.1
	Personal consumpt. expenditures	SCB, Table 1.1
	Gross private dom. investment	SCB, Table 1.1
	Net exports	SCB, Table 1.1
	Federal purchases	SCB, Table 1.1
	State and local purchases	SCB, Table 1.1

(Table 3.00 continues on the following page.)

TABLE 3.00

HISTORICAL DATA SOURCES (CONTINUED)

Table Number	Data Series	Source
1.30 Employment and Labor	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employment	SCB, Blue pages
	Agriculture	SCB, Blue pages
	Non-agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages
1.41 Housing	Single-family housing starts	SCB, Blue pages
	Multifamily housing starts	SCB, Blue pages
	Mobile home shipments	SCB, Blue pages
	Permits authorized	SCB, Blue pages
	1-family unit price, new	FRB, Table 2.14
	1-family unit price, existing	FRB, Table 2.14
1.42 Autos	Passenger cars: Total sales	SCB, Blue pages
	Domestic	SCB, Blue pages
	Imported	SCB, Blue pages
	Dealers inventories	SCB, Blue pages
	Factory shipments	SCB, Blue pages
	Light-duty truck sales	SCB, Blue pages
1.50 Federal State & Local Budgets	Federal govt: Income taxes	SCB, Table 3.2
	Corporate profit tax accruals	SCB, Table 3.2
	Surplus/Deficit	SCB, Table 3.2
	State & local govt:Income taxes	SCG, Table 3.3
	Corporate profit tax accruals	SCG, Table 3.3
	Surplus/Deficit	SCB, Table 3.3
1.60 Income	Personal income	SCB, Table 2.1
	Personal disposable income	SCB, Table 2.1
	Compensation of employees	SCB, Table 1.11
	Corporate after tax profits	SCB, Table 1.11
	Personal saving	SCB, Table 2.1
	Average weekly earnings	SCB, Blue pages
1.70 Money and Credit	Currency and demand deposits, M1	FRB, Table 1.21
	Time deposits, adjusted, M2	FRB, Table 1.21
	Consumer installment credit	FRB, Table 1.55
	Commercial and industrial loans	FRB, Table 1.23
	Large denomination time deposits	FRB, Table 1.21
	Mortgages at S&L Associations	FRB, Table 1.54
1.80 Interest Rates, Yields, & Securities Prices	Treasury bills (3 mo) yield	FRB, Table 1.35
	Prime rate	FRB, Table 1.33
	Conventional mortgage rate	FRB, Table 1.53
	Aaa corporate bonds rate	FRB, Table 1.35
	20 years government bonds yield	FRB, Table 1.35
	Standard & Poor's 500 average	FRB, Table 1.36